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RECEIVED APRIL 1981
ON PAGE 32

THE NEW YORK TIMES
19 December 1981

Excerpts From the Address On Countering Russians

Special to The New York Times

WASHINGTON, Dec. 18 — Following are excerpts from the prepared text of a speech today by Attorney General William French Smith to the Los Angeles World Council on the threat of Soviet espionage:

President Reagan inherited an intelligence community that had been demoralized and debilitated by six years of public disclosures, denunciation, and — in addition — budgetary limitations.

Unfortunately, during this same period, our need for a reliable foreign intelligence capability was dramatically increasing. Communist takeovers in Indochina — as well as the loss of pro-Western governments in Central Asia, the Middle East, and the Horn of Africa — posed new dangers. By the time the Russians invaded Afghanistan and the Iranians took our diplomats hostage, the Carter Administration itself had begun to appreciate the need for more effective foreign intelligence.

The threat to our Government and its citizens from hostile intelligence services and international terrorist groups was also increasing dramatically.

Agents Seen in Various Guises

This threat, and particularly the activities of the K.G.B., have at long last received some media attention in recent months. I welcome this attention because it is important for the American public to realize that hostile intelligence agents increasingly operate in the United States under a number of guises:

First, as diplomats. About one-third of the Soviet bloc personnel in the United States assigned to embassies, consulates, and the U.N. or other international organizations are believed to be full-time intelligence officers. And over the last dozen years the number of official representatives of governments with hostile intelligence activities in our country has increased by 400 percent.

Second, as trading company representatives. There are dozens of corporations in the United States that are largely or exclusively owned by the Soviet bloc countries. Earlier this week in Los Angeles, a Polish trading company official who had been purchasing classified documents from an employee of one major defense contractor was sentenced to life in prison.

Third, as students, scientists, and reporters. Soviet bloc exchanges with the United States have increased dramatically over the past decade. And their ranks have been packed with full-time or part-time intelligence operatives.

Fourth, as immigrants and refugees. Although virtually nonexistent prior to 1973, Soviet immigration here has since then amounted to some 150,000. More recently, there has been a vast influx of Cuban refugees — who last year alone exceeded 100,000. We believe that a small but significant fraction of these recent refugees have been agents of Soviet and Cuban intelligence.

Finally, we know that hostile intelligence services continue to infiltrate agents under assumed identities. In 1980 the F.B.I. disclosed that Col. Rudolph Hermann of the K.G.B. had entered this country through Canada with his wife and son a dozen years earlier and had thereafter posed as a freelance photographer living in a suburb of New York City.

U.S. Agents Called Outnumbered

The likely number of foreign spies in our country in those guises has increased sharply over the last decade. Unfortunately, our resources have not increased. At one time the F.B.I. could match suspected hostile intelligence agents in the United States on a one-to-one basis. Now, the number of hostile agents has grown so much that our F.B.I. counterintelligence agents are greatly outnumbered.

In addition to increasing their number of agents, hostile intelligence services have placed a high priority on scientific and technical information, much of which is unclassified proprietary data. The "Silicon Valley" near San Francisco, and southern California defense contractors, for example, have been the targets of intensive foreign intelligence efforts.

Foreign intelligence agents — often posing as businessmen, diplomats, or newsmen — befriend employees in the United States, request innocuous information on various pretexts with nominal reimbursement, and finally attempt to obtain sensitive information in return for substantial cash payments. In a case last year, a Belgian businessman was charged with offering up to \$500,000 to American employees to steal computer software technology he was seeking for the Soviets.

United States businessmen traveling in the Soviet bloc are lured into compromising situations and then

Switzerland. Earlier this month in Los Angeles, a Federal court sentenced two individuals to prison for illegally exporting state-of-the-art computers and other technological equipment to West Germany for diversion to Soviet bloc countries.

The costs to national security are incalculable because we depend upon our superior technology as a defense against Soviet military advantages in manpower and sheer volume of weaponry. A television documentary on the K.G.B. shown by the Canadian Broadcasting Company a few months ago, for example, concluded that the theft of inertial guidance technology by

Soviet intelligence improved the accuracy of Soviet ICBM's and made U.S. land-based missiles vulnerable — and argued that the theft created the need to build a costly MX missile system as a replacement. The multibillion-dollar cost of the proposed MX missile system may thus illustrate the effectiveness of Soviet intelligence.

Perhaps even more insidious is the threat posed by hostile "active measures" in this country, which are aimed at influencing public opinion and the political process through "disinformation" and "agents of influence." Most serious of all, however, is the threat of international terrorism. Although we have been fortunate as a country to have been spared the degree of terrorism experienced by many of our Western European allies, we cannot permit our relative good luck to engender complacency.

A small number of well-trained fanatics could change our fortunes overnight. As all of you know from press reports, the threat is real today. Libya's capability of sponsoring an effort to assassinate high U.S. Government officials provides a sobering example. As members of an open society that is the target of aggressive foreign powers, we must all recognize the grave threat from hostile intelligence and the need for more effective U.S. intelligence and counterintelligence. But we must do more than merely